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CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02722)

**CONNECTED TRANSACTION
ACQUISITION OF 3.33% EQUITY INTEREST IN
TRANSFORMER COMPANY**

The Board is pleased to announce that, on 16 December 2015, The Company entered into an Equity Transfer Agreement with the Parent Company, under which, the Parent Company agreed to transfer 3.33% equity interest in Transformer Company held by it to the Company at the consideration of RMB9,273,010. Upon completion of the Equity Transfer, the Company shall hold 69.02% equity interest in Transformer Company and the Parent Company shall no longer hold any equity interest in Transformer Company.

At the date of this announcement, the Parent Company holds approximately 52.36% interests in the issued share capital of the Company. The Parent Company is the controlling shareholder and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Equity Transfer constitutes a connected transaction of the Company under the Listing Rules. Since one of the applicable percentage ratio for the transaction under the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is only subject to reporting and announcement requirements under the Listing Rules, but exempt from independent shareholders' approval.

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EQUITY TRANSFER AGREEMENT

a. Date

16 December 2015

b. Parties:

- (1) The Parent Company (transferor), and
- (2) The Company (transferee).

c. Major Content

The Parent Company agreed to transfer and the Company agreed to acquire 3.33% equity interest in Transformer Company held by the Parent Company and such equity interest is not subject to any third party's claims or pledge and nor involved in any disputes and litigations. The effective date of Equity Transfer Agreement is the date of Equity Transfer.

d. Consideration and Pricing Basis

3.33% equity interest in Transformer Company held by the Parent Company is priced at RMB9,273,010. The payment method is one-time payment in cash and shall be paid by the Company's owned funds. The full price of the equity shall be remitted into the designated account of the Parent Company within 5 days from effective date of Equity Transfer Agreement.

According to the relevant requirements for the enterprises' state-owned property transfer and state-owned assets assessment, the Company engaged independent assets evaluation agency Chongqing Tianjian as the Transformer Company's asset evaluation agency. Chongqing Tianjian issued an evaluation report (Chong Tianjian Ping [2015] No.96) on the Transformer Company based on the asset basis method with 31 May 2015 as the evaluation basis date. According to the arm length's negotiation between the Company and the Parent Company, the price under the Equity Transfer is determined at the assessed value in the evaluation report by Chongqing Tianjian. Based on the assessed value of the net asset (owner's interest) of the Transformer Company being RMB278,468,700, the price of 3.33% equity interest in Transformer Company is RMB9,273,010.

The Directors consider that the consideration of the Equity Transfer is fair and reasonable and in the interests of the Company and the shareholders as a whole.

INFORMATION ON THE TRANSFORMER COMPANY

The Transformer Company is principally engaged in manufacturing and maintenance of power transformers and leasing of own premises and so on.

In September 2015, the total asset of the Transformer Company was RMB 246,086,500, net asset was RMB 246,086,500, net profit was -RMB34.57 and net asset yield was -0.14%; In 2014, net profit before tax was RMB 23,943,500 and net profit after tax was RMB 23,786,500; In 2013, the net profit before tax was RMB33,192,200 and net profit after tax RMB 32,718,900.

Before the Equity Transfer, the Company held 65.59% equity interest in Transformer Company and was the controlling shareholder of the Transformer Company and the Parent Company held 3.33% equity interest in Transformer Company. Upon completion of the Equity Transfer, the Company shall hold 69.02% equity interest in Transformer Company and the Parent Company shall no longer hold any equity interest in Transformer Company.

REASONS FOR AND BENEFITS OF ENTERING INTO EQUITY TRANSFER AGREEMENT

Before the Equity Transfer, the Company held 65.59% equity interest in Transformer Company and was the controlling shareholder of the Transformer Company. The Parent Company held 52.36% equity interest in issued share capital of the Company and was the controlling shareholder of the Company. Meanwhile, the Parent Company held 3.33% equity interest in the Transformer Company before the Equity Transfer. There exist problems of same industry competition and cross shareholdings between the Company and Parent Company. The Equity Transfer enables the integration of resources, resolving the problems of same industry competition and cross shareholdings between the Company and the Parent Company.

In light of the above reasons, the Directors (including independent non-executive Directors) consider that the terms of the Equity Transfer Agreement are fair and reasonable and are entered into on normal commercial items and entering into Equity Transfer Agreement is in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE COMPANY AND THE PARENT COMPANY

The Company is principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and CNC machine tools.

The Parent Company is principally engaged in general aviation aircraft, rail transportation, heavy automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axles), electronic information business and other business.

THE DELIBERATIONS OF THE BOARD

On 8 December 2015, the third session of the Board of the Company convened the sixth interim meeting in 2015. Upon unanimous agreement by all non-connected Directors (including independent non-executive Directors), the resolutions on the transaction under the Equity Transfer Agreement were approved. On voting the resolutions in relation to the Equity Transfer Agreement by the Board, the connected Directors, Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Huang Yong and Mr. Wang Jiyu, all abstained. Other than those connected Directors, none of other Directors has material interests in the transaction under the Equity Transfer Agreement.

IMPLICATIONS OF THE LISTING RULES

At the date of this announcement, the Parent Company holds approximately 52.36% interests in the issued share capital of the Company. The Parent Company is the controlling shareholder and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Equity Transfer constitutes a connected transaction of the Company under the Listing Rules. Since one of the applicable percentage ratio for the Equity Transfer is more than 0.1% but less than 5%, the Equity Transfer is only subject to reporting and announcement requirements under the Listing Rules, but exempt from independent shareholders' approval.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Board”	the board of Directors of the Company
“Transformer Company”	Chongqing Transformer Company Ltd., a limited liability company established pursuant to the PRC laws
“Company”	Chongqing Machinery & Electric Co., Ltd.*, a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (stock code: 02722)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	directors of the Company
“Equity Transfer Agreement”	an equity transfer agreement dated 16 December 2015 entered into between the Company and the Parent Company
“Equity Transfer”	the Parent Company transfers 3.33% equity interest in Transformer Company to the Company held by it pursuant to the terms and conditions of the Equity Transfer Agreement

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Company”	Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“Chongqing Tianjian”	Chongqing Tianjian Asset Appraisal and Land Evaluation Limited Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“%”	Per cent

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.
Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
16 December 2015

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Xiang Hu and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.

* *For identification purposes only*